

Message Text

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46/21

ACTION COME-00

INFO OCT-01 EA-06 NEA-09 ISO-00 CIAE-00 INR-07 NSAE-00

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FM AMEMBASSY ABU DHABI

TO SECSTATE 2267

AMEMBASSY SEOUL PRIORITY

INFO AMEMBASSY JIDDA

AMEMBASSY KUWAIT

AMEMBASSY MANAMA

AMEMBASSY MUSCAT

AMCONSUL DHAHRAN

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C O R R E C T E D C O P Y (SEOUL ADDED AS ACTION ADDEE, ALSO
CAPTION "STATE FOR EXIMBANK" INSERTED)

E.O. 11652: N/A

TAGS: EIND, BTIO, TC

SUBJECT: UAE DROWNS IN CEMENT

KUWAIT PASS DOHA

STATE FOR EXIMBANK

REF: STATE 228554, ABU DHABI A-1 2/5/74

SUMMARY: DURING RECENT TRIP TO DUBAI, EMBASSY LEARNED OF UAE CEMENT
GLUT. TO SAY THE LEAST, NOW IS THE INAUSPICIOUS TIME FOR EXPANSION OF

US CEMENT EXPORTS TO THE UAE. HOWEVER THERE IS A PRESSING NEED FOR
COVERED STORAGE FACILITIES FOR BAG CEMENT. END SUMMARY.

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1. AT PRESENT TIME, UAE HAS NO DOMESTIC CEMENT PRODUCTION. IMPORTS CONSIST PRIMARILY OF BAG CEMENT ALTHOUGH FACILITIES FOR BULK IMPORTS ARE AVAILABLE IN DUBAI. TOTAL UAE IMPORTS FOR 1973 WERE VALUED AT THIRTEEN MILLION DOLLARS. PAKISTAN IS BY FAR THE LARGEST EXPORTER SUPPLYING APPROXIMATELY 25 PERCENT OF THE MARKET BY VALUE. EIGHTY PERCENT OF UAE IMPORTS COME THROUGH THE PORT OF DUBAI.

2. THE UAE EXPERIENCED A SEVERE CEMENT SHORTAGE IN LATE 1973 AND EARLY 1974. THE DOMESTIC PRICE PER FIFTY KILO BAG REACHED DIRHAMS 32.00 OR ABOUT EIGHT DOLLARS AS SPECULATIVE COMMODITY BROKERS MADE THEIR APPEARANCE ON THE SCENE. IN RESPONSE TO PRICE PRESSURE, GENERAL TRADERS OF ALL SIZES ENTERED THE MARKET ORDERING BOTH BULK AND BAG CEMENT. IN THE LAST HALF OF 1973, DUBAI ALONE IMPORTED 169,000 METRIC TONS WHILE IN THE FIRST HALF OF 1973 IMPORTS HAVE TOTALED 214,000 METRIC TONS, AN INCREASE OF 26 PERCENT. IMPORT PRICES ALSO ROSE FROM DOLLARS 1.25 IN JUNE, 1973 TO ALMOST THREE DOLLARS BY JUNE, 1974. DOMESTIC DEMAND HOWEVER DOES NOT EXCEED 300,000 METRIC TONS PER YEAR. THE OVER RESPONSE OF THE MARKET RESULTED IN A CHAOTIC SITUATION FOR IMPORTERS. DOMESTIC PRICES HAVE PLUNGED TO LITTLE MORE THAN THREE DOLLARS, BARELY COVERING IMPORT COSTS. SURPLUS CEMENT IS BEING STORED IN THE OPEN ALL OVER DUBAI AND THE WORST IS YET TO COME. SOME OBSERVERS ESTIMATE THAT IMPORTS HAVE ALREADY REACHED 150,000 METRIC TONS PER MONTH.

3. IT IS DIFFICULT TO ASSESS THE PROSPECTS FOR CEMENT IN THE UAE. IN THE SHORT TERM, THE FIRST WINTER RAINS WILL HELP ELIMINATE THE PGYZNT GLQT BYHYPOILPMGHLAGGE QUANTITIES STORED OUTDOORS. IF SPOILAGE IS GREAT ENOUGH, RE-ORDERING MAY BEGIN AGAIN AND CONCEIVABLY THE CYCLE OF SHORTAGE AND OVER-SUPPLY COULD ALSO BEGIN. EMBASSY OFFICERS APPROACHED THE LARGEST IMPORTERS TO EXPLORE BULK STORAGE FACILITY BUT DID NOT PERCEIVE ANY ENTHUSIASM. IF ANOTHER SHORTAGE APPEARS LIKELY THIS SPRING, EMBASSY WILL AGAIN INVESTIGATE INVESTMENT POSSIBILITIES.

4. IN THE LONG TERM, THREE CEMENT PLANTS ARE CONTRACTED FOR AND A LETTER OF INTENT SIGNED FOR A FOURTH. ABU DHABI'S AL-AIN PLANT IS SCHEDULED TO PRODUCE 250,000 METRIC TONS PER YEAR BEGINNING IN MARCH, 1976. CAPACITY MAY BE EXPANDED TO 750,000 TONS. DUBAI'S CEMENT FACTORY IS NOT YET UNDER CONSTRUCTION BUT HAS A LIMITED OFFICIAL USE

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PLANNED CAPACITY OF 500,000 TONS. RAS AL-KHAIMAH AND SHARJAH ARE ALSO PLANNING CONSTRUCTION OF 250,000 TON FACILITIES. WITHIN TWO TO THREE YEARS THE UAE WILL BE PRODUCING ABOUT 500,000 TONS ANNUALLY, PROBABLY ENOUGH TO SATISFY PROJECTED DOMESTIC CONSUMPTION. WITHIN FIVE YEARS, PRODUCTION COULD REACH TWO MILLION TONS, FAR IN EXCESS OF MOST OPTIMISTIC ESTIMATES OF DOMESTIC CONSUMPTION. ALREADY OWNERS OF THE DUBAI PLANT ARE EXPLORING EXPORT OPPORTUNITIES WITH VARIOUS COUNTRIES OFFERING TO BARTER CEMENT FOR

GRAINS AND FRESH PRODUCE FROM SYRIA.

5. AGAIN IN THE LONGER TERM, US FIRMS CONSIDERING INVESTMENTS TO SUPPLY KUWAIT, BAHRAIN, AND QATAR WILL HAVE A RELATIVELY SHORT TIME TO RECAPTURE INVESTMENT OUTLAYS. OF THE FOUR CEMENT PLANTS, THREE ARE GOVERNMENT SUBSIDIZED. LOCAL PRODUCERS FACING DOMESTIC OVERSUPPLY, CAN ABSORB LARGE LOSSES TO ESTABLISH EXPORT MARKETS. STERNER

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